

23 JUNE 2001 EARTHQUAKE EMERGENCY RELIEF PROGRAM

(PE-0215)

EXECUTIVE SUMMARY

Borrower:	Republic of Peru	
Executing agency:	Ministry of Economy and Finance (MEF) through the Office of Public Investment (ODI)	
Amount and source:	IDB: (OC)	US\$20 million
	Local:	US\$ 9 million
	Total:	US\$29 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	1 year
	Commitment:	9 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar Single Currency Facility
Objectives:	The purpose of the program is to restore basic services to the communities in the disaster area and to take immediate steps to prevent further harm from befalling people in the earthquake zone as well as to set about rebuilding damaged infrastructure.	
Description:	Under the program funding will be provided for procurement of goods and services for temporary reconstruction, stabilization, and repair of physical structures damaged by the earthquake in the departments of Arequipa, Moquegua, and Tacna and in the provinces of Parinacochas and Páucar del Sara Sara in the department of Ayacucho. The activities include (i) removal of debris and demolition of unstable buildings and structures; (ii) clean up and repair of environmental damage including upgrading of refuse dumps; (iii) control and stabilization of buildings, terrain, and physical structures such as bridges, landfills, roads, telecommunications towers, and dams; [(iv) restoration] of electricity, water, and sanitation service; (v) repair, construction, and purchase of the necessary equipment and	

facilities for restoring social and sanitation services to the affected communities; (vi) communications equipment and facilities, (vii) temporary housing; and (viii) studies and surveys for taking an inventory of the damage and devising plans for reconstruction and rehabilitation and two studies to evaluate the national emergency system.

The Bank's country and sector strategy:

In cases of catastrophic natural disasters, the Bank assists its borrowing member countries in dealing with the unexpected effects that such events have on the population and to mitigate its socioeconomic and environmental impact. In addition to the emergency reconstruction facility (ERF) to be used in the present program, the Bank can draw on other instruments such as reformulation of existing loans or approval of new ones for use during the reconstruction and recovery stage.

Environmental and social review:

Given the nature of the activities proposed, no adverse environmental effects are anticipated. The works are fairly simple and should satisfy the technical and environmental specifications at the subexecuting agencies' disposal. However, as some activities such as the removal of debris could have undesirable environmental effects, the eligibility of such activities will be subject to defining in advance the site for disposal of rubble and the technical and environmental procedures that would be followed. The program also includes financing specifically for activities relating to the disposal of debris that may have been improperly removed in the early days of the emergency and for repair of damage that may have been occasioned during that same period. No specific environmental assessments are planned. The environmental dimension will be added to the system of supervision and operational audit.

Benefits:

The program will help alleviate the immediate effects of the earthquake on the living conditions of affected communities in the departments of Arequipa, Moquegua, and Tacna and in two provinces in the department of Ayacucho, thus making it possible to restore basic infrastructure and reduce damage to sources of employment. The beneficiaries of the program will be mainly low-income communities since the homes and sources of employment destroyed in the disaster zone affect mainly to the very poor.

Risks:

The main risks associated with the program are as follows:

- (i) A lack of continuity and delays in execution may result from possible personnel changes in the subexecuting agencies and the executing agency following the change of administration on 28 July 2001. The orderly transition process that is under way will minimize this risk. Also, the

Bank will offer information workshops on procurement and disbursement procedures in each department, with the new staff designated for the project. There will be no changes in municipal authorities, however, and generally speaking they are the ones who will be making all decisions concerning the program.

- (ii) Another potential risk are the delays that could arise from having many different institutions assessing and addressing the needs in each department. Having a general coordinator within the MEF, with expertise and experience in administering similar programs will assuage this risk.

**Special
contractual
clauses:**

The first disbursement of the financing will be subject to the following conditions being met, to the Bank's satisfaction:

- (i) A separate account must have been opened in the name of the executing agency specifically for deposits, transfers, and use of the proceeds of the financing (paragraph 4.19); and
- (ii) A short list of independent public accounting firms deemed eligible to perform the financial and operational audit must have been drawn up (paragraph 4.40).

In addition, the disbursement of funds to finance activities that are the responsibility of the subexecuting agencies will be subject to fulfillment, to the Bank's satisfaction, of the following conditions:

- (i) The corresponding participation and funds transfer agreement must have been signed with the subexecuting agencies (paragraph 4.20); and
- (ii) Separate accounts must have been opened in the name of the subexecuting agencies specifically for deposits and transfers of the proceeds of the financing and its use (paragraph 4.20).

Contracts awarded and expenses incurred under the program will be subject to a financial and operational audit that will be performed by a firm of independent auditors acceptable to the Bank, in accordance with procedures and terms of reference previously agreed on with the Bank (paragraph 4.40).

The borrower will hire an independent firm of auditors acceptable to the Bank to handle the financial and operational audit of the program within three months after the effective date of the loan contract.

Failure on the part of the borrower to comply with this commitment will result in the immediate suspension of disbursements. Such suspension will remain in effect as long as the situation of noncompliance persists (paragraph 4.40).

The auditing firm must submit to the Bank and the executing agency the operational and financial audit report on activities completed during the first six months of the program within 60 days after the end of the aforesaid period (paragraph 4.41).

The final operational and financial audit report on the program, to be performed by the aforesaid auditing firm, must be submitted to the Bank by the executing agency within 60 days after the date of the last disbursement (paragraph 4.41).

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (paragraph 4.48). The borrowing country will be using 10 percentage points in additional financing, or 70%.

Procurement of goods and services:

The Emergency Procurement Procedures set out in the Procurement Manual (GS-601) will apply for the program:

1. **International competitive bidding:** For procurement in amounts above the mandatory thresholds for international competitive bidding, simplified procedures will be used for contracts: (i) over US\$3 million in the case of civil works; (ii) over US\$250,000 in the case of goods and related services; and (iii) over US\$200,000 in the case of consulting services.
2. **Closed bidding will be used for contracts:** (i) over US\$500,000 and up to and including US\$3 million in the case of civil works; (ii) over US\$50,000 and up to and including US\$250,000 in the case of goods and related services, and over US\$50,000 and up to and including US\$200,000 in the case of consulting services.
3. **Price shopping** will be used for contracts (i) over US\$200,000 and up to and including US\$500,000 in the case of civil works; and (ii) over US\$5,000 and up to and including US\$50,000 in the case of goods and related services.
4. **Direct contracting** will be used for contracts: (i) up to and

including US\$200,000 in the case of civil works; (ii) up to and including US\$5,000 in the case of goods and related services, and (iii) up to and including US\$50,000 in the case of consulting services.

These emergency bidding procedures will remain in force for a period of 12 months commencing on 25 June 2001, the date on which the emergency was declared.

Up to US\$8 million of the proceeds of the loan may be used under the direct contracting modality provided that:

- (a) reimbursable procurement effected under retroactive financing is included under the corresponding threshold,
- (b) the cumulative maximum amount of contracting by company does not exceed US\$600,000.

The municipalities will publish every month in a place readily accessible to the public the names of the beneficiary families. The executing agency will post on the MEF's Webpage a list of the contracts awarded with program funding, including the purpose and amount of the contract. This information must be published in a leading national newspaper.

Recognition of expenses and retroactive financing:

The Bank may recognize as chargeable to the local counterpart funding expenses of up to US\$4 million that are incurred between 25 June 2001 and the date on which the loan is approved. An amount of up to US\$10 million incurred between the aforesaid dates may be recognized as chargeable to the IDB financing. All such expenses must have been incurred for eligible activities using procurement and contracting procedures similar to those established for the present program.